

SECTOR POLICY



OIL AND GAS

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1. INTRODUCTION

Within the framework of its Corporate Social Responsibility policy, Societe Generale (the “Bank”) intends to take into account within its Group the environmental and social (E&S) issues associated to all its activities, to better control their impact and promote good practices, with an objective of continuous improvement. The Bank thus defined E&S General Guidelines which set key standards and parameters for a responsible engagement in all its banking and financial activities. In addition to this general framework, Cross-sectorial Policies dealing with E&S issues common to all sectors are developed, as well as Sector Policies where the Bank looks more specifically into certain sectors identified as sensitive and in which it plays an active role. The Oil and Gas sector has been identified as one such sector.

Societe Generale provides a range of banking and financial services to the Oil and Gas industry. Fossil fuels are still playing a key role in the world economy and will continue to be part of the energy mix in the foreseeable future. The objective set by the Paris Agreement of December 2015 of limiting global warming below 2°C, however, creates new challenges for the Oil and Gas sector. Societe Generale recognises it has a role to play in the transition to a low-carbon economy and supports the efforts of governments and private sector to limit greenhouse gases emissions. The Bank has made commitments for the management of its activities in line with a 2 degrees scenario and will accompany its clients of the Oil and Gas sector in the energy transition.

Oil and Gas activities may also take place in complex operating environments, remote locations and countries with weak governance systems and require heightened E&S risk management and due diligence.

Societe Generale recognises the importance of the E&S risks and impacts associated with these activities, including on indigenous peoples who may represent vulnerable segments of project-affected communities. This is why the Bank aims for the highest E&S standards when considering the provision of banking and financial services to the Oil and Gas industry.

ENERGY E&S SECTOR POLICIES

Societe Generale’s Energy E&S Sector Policies seek to identify E&S issues throughout the whole value chain in which the Bank is active, from retrieval of the energy source; to power and heat production; to transportation, distribution and storage; and end user energy consumption. The Bank will identify and develop additional Policies as necessary in the future to assist it in better addressing E&S issues within this value chain. The published Energy E&S Sector Policies of Societe Generale include:

- The Oil and Gas Sector Policy
- The Thermal Power Sector Policy
- The Coal-Fuelled Power Sector Policy
- The Dams and Hydropower Sector Policy
- The Civil Nuclear Power Sector Policy

2. COMMITMENT

Societe Generale is committed to incorporating in its decision-making processes the review of the E&S impacts potentially associated with the activities of its clients. The Bank will work with clients who meet or aim at meeting its sustainability standards. Societe Generale will take appropriate measures if these standards are not met, or if the client no longer aims at meeting them.

This Sector Policy may evolve in time, according to legislative or regulatory evolutions and as a result of the discussions between the Bank and its various stakeholders.

3. RISK ASSESSMENT

While it is incumbent on the Bank's clients to manage the risks associated with their own operations, it is important to Societe Generale to evaluate the consistency of its engagements with clients against the E&S principles of the Bank.

When evaluating clients' activity and/or transactions in this sector, particular attention is paid to the following aspects:

- Impacts on natural habitats, and areas protected for biodiversity or cultural considerations;
- Increased access to previously remote areas, which can result in impacts by third parties such as clearance of forest, or conflict with local communities;
- Air emissions and carbon intensity of the production;
- Reliance on gas flaring as a management strategy for associated gases;
- Methane leakages;
- Water consumption for processing and cooling operations, with potential negative impacts on water flow and/or quality;
- Potential for pollution of ground and surface water;
- Wastewater management;
- Waste management, including discharge of offshore drilling waste;
- Oil spill risks;
- Impact of toxic chemicals;
- Fire and explosion risks;
- Workers' health and safety protection;
- Impacts on local communities, including resettlement or economic displacement caused by loss of land or assets;
- Impacts on indigenous peoples or lands used by indigenous peoples;
- Operation in areas of social conflict and/or deployment of armed forces for security purposes;
- Operation in areas where there is a legacy of tension and in countries with a history of weak regulatory frameworks, lack of transparency or high corruption and/or human rights violations; and
- Displacement of food crops and potential impact on the food and feed market prices (biofuels).

4. SCOPE

This Sector Policy applies to all the banking and financial services provided by the Societe Generale Group entities to its clients of the Oil and Gas sector involved in the following activities:

- Oil and Gas exploration & drilling or mining (including oil sands);
- Oil and Gas field planning, development and operation;
- Oil and Gas refining and processing, excluding petrochemical activities;
- Oil and Gas transportation, storage and export infrastructures;
- Oil and Gas services industry.

Both conventional and unconventional Oil and Gas resources, as well as biofuels production, are covered by the Policy.

Financings involving FPSOs (Floating Production Storage and Offloading) and FSUs (Floating Storage Unit) are within the scope of this Sector Policy. When the vessel is directly financed, Societe Generale Shipping Policy also applies.

5. SECTOR-SPECIFIC STANDARDS

Societe Generale being active worldwide, the E&S laws and regulations its clients have to comply with vary from one country to another or one region to another. At a minimum, Societe Generale requests its clients to comply with the E&S laws and regulations of each relevant country, while encouraging them to apply the Bank's E&S standards.

A number of institutions and business associations of the Oil and Gas industry have developed standards and initiatives¹ addressing the E&S impacts resulting from the sector activities.

The standards and initiatives listed below provide guidance for Societe Generale E&S assessment in this sector:

- **E&S management**
 - the [IFC Performance Standards](#) and [World Bank Group Environmental, Health and Safety Guidelines](#) applicable to the Oil and Gas sector;
 - the International Energy Agency [Golden Rules for a Golden Age of Gas](#) (2012);
 - the good practice guidance of the [International Petroleum Industry Environmental Conservation Association](#) (IPIECA) and of the [International Association of Oil and Gas Producers](#) (IOGP).
- **Climate impact**
 - the [Oil and Gas Climate Initiative](#) (OGCI);
 - the [Climate and Clean Air Coalition \(CCAC\) Oil and Gas Methane Partnership](#);
 - the [CDP](#) Climate Change Program;
 - the European Union [Fuel Quality Directive 2009/30/EC](#),
- **Human Rights-** the [Voluntary Principles on Security and Human Rights](#) (2000), the [UN Declaration on the Rights of Indigenous People](#) (2008);
- **Transparency-** the [Extractive Industries Transparency Initiative](#) (EITI).
- **Gas Flaring-** the [Global Gas Flaring Reduction Partnership](#) (GGFR) and the [Zero Routine Flaring by 2030](#) led by the World Bank.
- **Emergency Response-** For maritime operations, the IMO [Convention on Oil Pollution Preparedness, Response and Co-operation](#) (OPRC, 1990).
- **Marine Pollution-** the 2003 amendment to Annex 1 of the [International Convention for the Prevention of Pollution from Ships](#) (MARPOL) concerning the prevention of pollution by oil, and remaining criteria of the MARPOL Convention when applicable. The [Convention for the Protection of the Marine Environment of the North-East Atlantic](#) (OSPAR Convention).

Based on the analysis of these initiatives and of best practices of multilaterals and financial institutions, Societe Generale has defined the following E&S criteria which are incorporated into its decision-making process when considering provision of banking and financial services in the Oil and Gas sector:

¹ These standards and initiatives may take the form of conventions, directives, standards, recommendations or guidelines...

a. Clients criteria

When conducting a corporate E&S assessment in this sector, Societe Generale applies the following criteria:

- Clients of the Oil and Gas sector are expected to have developed E&S management policies and procedures commensurate to their potential impacts. In addition, clients who operate facilities are expected to monitor the greenhouse gases emissions generated by their activities.
- Clients who operate facilities in the upstream Oil and Gas sector are expected to address limitation of their venting and flaring practices. Clients who develop new oil fields are required to have plans that incorporate sustainable utilization or conservation of the new field's associated gas without routine flaring. They are also encouraged to eliminate legacy routine flaring as soon as possible and no later than 2030 in accordance with the World Bank Zero Routine Flaring initiative.
- Clients who operate facilities in the upstream Oil and Gas sector are required to have in place or be committed to implement a methane leak detection and management program.
- Clients of the upstream Oil and Gas sector involved in unconventional oil and gas operations² are required to implement or be committed to implement best E&S practices in line with the applicable International Energy Agency "Golden Rules"².

In addition, Societe Generale refrains from providing banking and financial services to companies:

- Which primarily derive their revenues from the exploration or production of oil from oil sands, or have a majority share of their reserves in oil sands;
- Which primarily derive their revenues from the exploration or production of Arctic oil, or have a majority share of their reserves in the Arctic region.

b. Dedicated transactions criteria

When conducting an E&S assessment of a transaction³ in this sector, Societe Generale has the following requirements and positions:

- For dedicated transactions in the Oil and Gas sector located [outside designated countries](#)⁴:
 - The IFC Performance Standards and relevant World Bank Group EHS Guidelines are complied with, as applicable;
 - Where security forces are used, they operate in compliance with IFC Performance Standard 4. In addition, sponsors or clients are encouraged to implement policies and procedures aligned with the Voluntary Principles on Security and Human Rights;
 - Material payments to local governments (including taxes, royalties or license fees) are disclosed in accordance with local regulations or other applicable regulations⁵. Where such regulations are not applicable, sponsors or clients are encouraged to voluntarily disclose such information and support transparency initiatives such as the EITI.
- For dedicated transactions for new developments in the upstream Oil and Gas sector and of long distance gas transmission pipelines and LNG facilities, a site-specific methane leak detection and management program is implemented.
- For dedicated transactions in the upstream Oil sector:
 - new fields are developed with plans incorporating sustainable utilization or conservation of associated gas, without routine flaring;
 - existing assets have time-bound plans to eliminate routine flaring.

² See definitions in Glossary

³ See Implementation Process in Societe Generale E&S General Guidelines

⁴ As defined by the Equator Principles Association

⁵ For example, the EU Accountability and Transparency Directives or Canada's Extractive Sector Transparency Measures Act

- For dedicated transactions affecting indigenous peoples, Societe Generale expects its clients to implement a process of Informed Consultation and Participation (ICP) and if necessary, to obtain in due time their Free, Prior and Informed Consent (FPIC)⁶.
- In addition, Societe Generale refrains from being involved in dedicated transactions:
 - For the exploration and production of oil from oil sands;
 - For the exploration and production of Arctic oil;
 - For infrastructures exclusively dedicated to the transport or storage of oil from oil sands or Arctic oil;
 - For facilities producing first generation biofuels;
 - For upstream oil and gas operations located within a World Heritage Site or with material adverse impacts on the outstanding universal value of a natural World Heritage Site.

c. Equator Principles

In addition, Societe Generale applies the [Equator Principles](#) and its underlying standards to the transactions falling in the scope of this initiative.

Together with the criteria defined in the E&S General Guidelines and in the Cross-sectorial Policies (in particular the Biodiversity Policy), these standards provide the E&S framework used by Societe Generale to consider its involvement in transactions in the Oil and Gas sector.

6. IMPLEMENTATION PROCESS

As established in the E&S General Guidelines, Societe Generale integrates the assessment of potential E&S risks and impacts into its decision-making processes both at the client assessment level and, where necessary, at the transaction assessment level.

The development of these processes will take into consideration risks materiality and may be adapted to countries.

Societe Generale decisions are based on the information made available to the Bank. Societe Generale puts all its reasonable endeavours to ensure the quality and reliability of this information.

7. SCHEDULE – REVISIONS

This Oil and Gas Sector Policy is applicable from the date of its publication to all services provided therefrom.

Procedures will be put in place progressively, as necessary, throughout the Bank to ensure full integration of these requirements in the usual decision processes. Review mechanisms will allow for continuous improvement.

Societe Generale reserves the right to modify this Sector Policy at any time. This document cannot be interpreted as a contractual commitment.

Updated versions will be posted on [Societe Generale's website](#), where the E&S General Guidelines and all published Cross-sectorial and Sector Policies are also available.

This document is a free translation into English of the original Policy (drafted in French).

⁶ See definitions in Glossary

GLOSSARY

Arctic region: “Arctic waters” as defined by the International Maritime Organization (IMO) in the [Polar Code](#) for offshore areas and north of the Polar Circle for onshore areas.

Free, Prior and Informed Consent: there is no universally accepted definition of Free, Prior and Informed Consent but several international texts use it, including the UN Declaration on the Rights of Indigenous Peoples (2007). Based on good faith negotiation between the client and affected indigenous communities, FPIC builds on and expands the process of Informed Consultation and Participation, ensures the meaningful participation of indigenous peoples in decision-making, and focuses on achieving agreement. FPIC does not require unanimity, does not confer veto rights to individuals or sub-groups, and does not require the client to agree to aspects not under their control.

Informed Consultation and Participation: an organized, detailed and iterative engagement process commensurate to the severity of the potential impacts and in which the impacted community’s comments and views on the potential impacts and mitigation measures are incorporated into the project’s planning and design.

International Energy Agency “Golden Rules”: principles proposed by the IEA in 2012 to address the environmental and social impacts of unconventional gas development in order to pave the way for its widespread development on a large scale. Among the “Golden rules” applicable to companies using hydraulic fracturing techniques are the following practices:

- Measure, disclose and engage, involving meaningful and timely engagement with local communities, establishing key environmental baselines before drilling and disclosure of key operational data;
- Select drilling sites based on geological, environmental and social considerations with a view to minimizing risks of earthquakes or of fluids moving between geological strata;
- Ensure well integrity through the implementation of high standards of well design, construction and integrity testing to prevent leaks from gas wells into aquifers;
- Reduce freshwater use (improve operational efficiency and reuse or recycle flowback water wherever practical) and manage wastewater responsibly (adequate treatment, storage and disposal to prevent and contain surface spills);
- Minimize use of chemical additives and develop and use fluid mixtures that will not impair groundwater quality if a spill or leak occurred; Publicly disclose chemical substances in the fracturing fluid;
- Minimize air emissions by reducing flaring during well completion, eliminating venting and reduce fugitive emissions during the entire productive life of a well.

Methane leaks detection and management: program to detect and repair methane leaks. Robustness of the program can be judged based on its scope, frequency, methodology, record-keeping and /or personnel training.

Oil sands: Also known as tar sands or crude bitumen, oil sands are either loose sands or partially consolidated sandstone containing a naturally occurring mixture of sand, clay and water, saturated with a dense and viscous form of petroleum. They require heat, dilution or other tertiary processes for recovery.

Unconventional oil and gas: for the purpose of this Sector Policy, this definition includes such oil and gas resources for which the IEA Golden Rules are relevant such as shale oil, shale gas and coal-bed methane.